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Methods for Economic Study Of Communities Reviewed*

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Why should a community undertake to evaluate the various aspects of its economy? A community may decide to study its assets and liabilities because it wants to grow—to seek a factual base for planning how to increase its industrial growth rate or maintain its present economic level or prevent economic decline. On the other hand, such a study might be undertaken as a result of growth; the expansion of the community's economy may call for research and planning on the best use of land, provision of adequate services and facilities, etc., to accommodate new entrants.

A community may have one or several of the following specific objectives in mind: (1) to increase employment; (2) to reduce seasonal or cylical fluctuations in employment; (3) to improve use of land, water, minerals, or other resources; (4) to broaden the tax base; (5) to determine its relative competitive position with other areas as a basis for promotional effort; (6) to determine the suitability of the community as a location for a specific industry.

It is seldom possible to include in any single study the full range of problems which might bear on a community's development. The community's present level of development, the need to take action immediately on a specific problem, the funds available for conducting research, and other factors may require a community to narrowly define the scope of its evaluation.

Each of the counties and communities in Montana contains a certain inventory of human and material resources. At any point in time, a "balance sheet" can be struck on the assets and liabilities of any of these areas. Each balance sheet would differ as to net worth and composition of assets and liabilities. These variations make it dangerous to take a generalized approach to our topic. Yet a specific approach is not possible unless a particular community is selected for discussion. I hope, then, that the generalizations used in this discussion are, for the most part, applicable to your own individual situation. Our approach has been centered on the following questions: (1) What is the background against which community evaluation studies would be undertaken? (2) What should be evaluated? (3) Who should do it? (4) How is it done? (5) When is the job finished?

There are several things that should be kept in mind

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Home Appraisal Problems And Methods Surveyed

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What is an appraisal? An appraisal is an estimate of the value of a piece of property based on facts that can be verified.

The terms "real estate" and "real property" are often confused. The common definition of real estate is land and all those things permanently fastened to it. This definition seems simple enough, but in practice it is often difficult to determine whether certain articles are real or personal property. Real property is the sum total of all the right and benefits which may be derived from the ownership and use of the real estate. An appraisal, then, is an estimate of the worth of these rights and benefits to a typical buyer.

People buy homes for the joys and comforts of living which the home will create; they do not buy homes because it is cheaper than renting. In a recent summary of a cross section of 100 new homes in a subdivision, not a single homeowner stated that he purchased his home because it was cheaper than renting. These people purchased homes for a variety of reasons, but all of them had to do with the comforts to be derived from home ownership.

The thinking of people creates and destroys values in real property. The appraiser must determine what the typical buyer wants in a home and what he is able and willing to pay. It is then necessary to measure this willingness to pay in terms of dollars because values are measured by the medium of exchange. One must also remember that the buying power of the dollar is not constant; it fluctuates from time to time. This makes it necessary to determine values by means of a measuring stick that expands or contracts as a result of general business conditions.

What is value? There are many concepts of value. Every person has his own ideas as to what constitutes value. Some values which are often spoken of are: fair—market—present—insurable—economic—sound—rental—liquidation—nuisance—sales—assessed—and many others. Each of these so-called values is different because it reflects how much people will pay for a given property under a variety of circumstances.

Values can be broken down into use value and exchange value. As long as a thing is free and everyone has all he can use, it will not have any exchange value. Air is one of mankind's most useful items, yet it has no exchange value. However, we cannot say that it has no use value. It has no

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Home Appraisal Problems And Methods Surveyed

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exchange value because there is an abundance for all to use. Only when a commodity becomes scarce will it begin to have value in exchange. Value is not the cost of bricks, cement, nails, and lumber but what people are willing and able to pay for the finished product.

Various definitions of value have been used from time to time. An economist would say "Value is the power of a good or commodity to command other goods or commodities in exchange." Obviously, this is the exchange value mentioned above. Another definition often used is "Value is the present worth of all the rights to present and future benefits which flow from the ownership of a property." This is a more inclusive definition because it indicates that value comprises not only present but future benefits as well. An appraiser must attempt to measure the volume of benefits flowing from a property now and in the future.

The most common value used in an appraisal is "market value." It is consequently necessary to arrive at a workable definition of market value for use by the appraiser. For a definition we turn to the courts because they are often called upon to determine the value of real estate in cases of dispute, eminent domain, and settlement of estates. The courts have defined market value as being "the highest price estimated in terms of money which a property will bring if exposed for sale in the open market, allowing a reasonable time to find a buyer, who buys with a knowledge of all the uses to which it is adapted and for which it is capable of being used." This definition outlines the conditions which must exist if a sale is to be considered to be at market value. The property must be exposed in the open market for a reasonable length of time. What is a reasonable length of time? It is the period of time necessary to expose the property to as many potential buyers as possible. In the case of real estate, there is no "open market" available such as exists for securities on our stock exchanges or for commodities on the Chicago Commodities Exchange. The market for real estate is created by brokers, and supply and demand are seldom in equilibrium. There is usually either a seller's or a buyer's market. The definition presupposes that both the buyer and seller are well informed; in actual practice, this is seldom true. The definition also presupposes that both parties are aware of what is the highest and best use for the land under appraisal; this also is seldom true in practice.

From this discussion it becomes evident that many sales are not made at market value because they do not meet the requirements of the definition. Sales are made at market price and this may or may not be at market value. In actual practice, the selling price is presumed to be at market value if it seems to be a bona fide "arm's length" sale with both parties free to act and no special problems or pressures present.

There are several circumstances, however, under which sales should not be considered to have been made at market value. The Oregon State Tax Commission offers the following types of sales which should be excluded in the obtaining of bench-mark properties for appraisal purposes:

(1) The grantee is a Federal, state, county, or local municipal agency. (Such sales are often condemnations.)

(2) The grantee is a bank, insurance company, building and loan association, or a mortgage company. (Transfers are often made to avoid foreclosure.)

(3) The grantee is a charitable, educational, or religious institution. (Such transfers are often partially or wholly gifts.)

(4) The grantee and grantor are relatives or corporate affiliates.

(5) The subject of the grant is an undivided interest.

(6) The grantee and the grantor are the same and the deed is merely made to change the nature of the title such as from tenants in common to tenants by entirety.

(7) The grantee and grantor are merely exchanging properties. (Deeds recorded at nearly the same time with reverse grantor and grantee indicate a trade.)

(8) The grantor is transferring property to avoid a lien or judgment.[1]

Although this list is not complete, it provides a good indication of the types of transactions which should not be used as comparables.

It is evident that the selling price of a property might be either at, above, or below market value according to the circumstances surrounding the sale. Temporary market conditions affect market price but not market value. In the 1920s houses is some areas sold for as much as 40 per cent over reproduction cost. In some cases the second mortgages on these houses sold at discounts up to 25-30 per cent. This discount of the financing instruments was an actual reduction of the selling price of the properties and should be considered as such.

At the other end of the business cycle, during the depression of the 1930s, there was in some areas no market for homes at any price. In fact, homes would not sell for two years' back taxes. The same use value was present in these two extremes; the usefulness of the home was not affected by the abnormal market conditions.

Some economic forces affect both price and value while others affect only one. Easy mortgage money and low down payments affect the price but not the value. A poor floor plan would affect the value of a home; but, if houses were in short supply, it would not affect the price.

In the case of *C. C. C. and St. Louis v. Victor Backus* before the United States Supreme Court, Justice Brewer stated that "The value of property results from the use to which it is put and varies with the profitableness of that use, present and prospective, actual and anticipated. There

[1] Oregon State Tax Commission, Regulation IV, art. 9028.1—B.

is no pecuniary (monetary) value outside of that which results from such use."[2]

This case has contributed a great deal to the definition of market value. First, it points out that value arises from the use of the property. Value and utility or usefulness go together, and, when there is a scarcity, we have maximum values. The property which is useful to the greatest number of people will tend to maintain its value better than other properties. The second point made is that value is derived from the profitableness of the use. If it is an income property, the amount of monetary profit it is capable of producing will determine its value. If the property is a home, then the value is in the volume of enjoyable living it is capable of producing. The final point made by the decision is that not only present profits are to be considered: future and anticipated profits as well should be included in the evaluation. In appraising a home the present and future volume of amenities should comprise part of the estimate.

Governmental agencies have contributed much to the definition of market value. The F.H.A. during the period from 1935 to 1952 appraised three million properties valued at $22 billion. Its definition of value and procedure of appraising has affected appraising practices and influenced market prices. The F.H.A. defines market value as "the price which typical buyers would be warranted in paying for the property for long term use or investment, if they were well informed, acted voluntarily, and without necessity."[3] This is in line with statements of other authorities in that it assumes that parties are well informed and acted voluntarily. However, instead of using what "the purchaser paid" as the market value, there is the substitution by the F.H.A. of the words "warranted in paying."

The Veterans Administration coined the term "reasonable market value." This arose from the concept that the veteran should not be allowed to borrow on a property if the price was above a reasonable value. The Veterans Administration definition of reasonable market value is "that figure which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias or prejudice, would recommend to a prospective purchaser as a proper price or cost in the light of prevailing conditions." This definition shifts the responsibility for being well informed from the buyer to the appraiser. It also sets up some rather difficult hurdles, since the appraiser must be without "bias or prejudice." In practice most appraisers feel that market value is usually a "reasonable" price for a purchaser to pay.

Someone has said that there are three things which a person should look for in buying a home and all three of them are location. It is certainly true that "economic or area depreciation" causes more loss in value than does ordinary physical depreciation. Once an area is almost fully built up, there is no place for values to go but down. Inflation and other economic forces may tend to cover up the fact that area depreciation has set in. One of the indications that a neighborhood is starting to run down is the presence of vacant houses and houses for rent. They show that the original owners are moving out and the area is in transition and their homes are being converted to rental properties. Values may stabilize again after the conversion but they will probably be considerably below the original values. It is axiomatic that renters do not take as good care of or have the pride in the property that homeowners do.

A neighborhood of homes of approximately the same size, arrangement, architecture, and cost will tend to retain its values better than a neighborhood of nonconforming homes. All the houses need not be of the same architecture and cost but they should not be glaringly different. They should blend together to make a pleasing impression to an outsider. Are all of them capable of creating approximately the same volume of amenities? If so, maximum values will be created. A $25,000 house among $10,000 homes will not raise the price of the average home; the higher-priced property will be pulled down near the average price of the other homes in the area.

Depreciation, as it applies to real estate, could be defined as all of those forces that decrease the capital value of the property. The typical homeowner seldom accepts the fact that his home has depreciated since he purchased it. He accepts depreciation as an accomplished fact when he trades in his car, but when he wants to sell his home he remembers all of his costs without reduction for depreciation. (Perhaps the one exception to this is when the assessor comes around to assess his home for next year's taxes.)

Three types of depreciation are recognized in appraising. The first is physical depreciation. This is usually thought of as a decrease in value due to wear and tear and the action of the elements. It should be broken down into curable and incurable physical depreciation. The curable part is made up of those things which can be prevented or can be brought back by adequate maintenance. The major part of physical depreciation can be prevented by adequate maintenance and care. The incurable part is made up of those things which cannot be remedied or, if remedied, would be so expensive that the owner could not recover their cost over the remaining effective life of the building.

The second type is functional depreciation or obsolescence. The rapid change in the designs of homes in recent years has greatly increased the amount of obsolescence in homes. Not only may older homes be affected but new homes as well. Eccentric design, inadequacy, lack of convenience, outmoded equipment— all will cause functional depreciation regardless of whether they are in old houses or new ones. In most cases functional obsolescence is too costly to cure, and consequently the value of the property has to be written down to reflect the attitude of the typical buyer.

Economic obsolescence, also called area depreciation, is a loss in value due to conditions surrounding the property rather than any fault in the property itself. This could be caused by a running down of the neighborhood, by an oversupply of a certain type of house, or by the change in character of use. These are only a few of the external conditions which may cause economic depreciation. More value is destroyed by surrounding conditions than by the other two types of depreciation combined.

There are three approaches that may be used in an attempt to determine value. They are the cost approach, the market approach, and the income approach. The cost approach was one of the earliest to be used in appraising. The idea behind this approach is that a thing is worth what it costs to bring it into being. This may not always be true. Neither a dry well not a hotel built in the desert would

[2] 154 U.S. 439, 38 Law Ed. 1011, 14 S.C. Rep. 1122 (1891).

[3] Federal Housing Administration, *Underwriter's Manual*, revised. (1947).

be worth what it cost to produce it. Under certain circumstances, however, cost and value might be synonomous. If a new improvement develops the land to its highest and best use, and supply and demand are equal, then the two should be the same. Cost is not the answer but only the starting point from which the final answer in appraising may be obtained.

Some say that cost fixes the ceiling of value, but this is not always true. At various times homes have sold for as much as 20 per cent above the cost of reproduction, because of lack of adequate labor and materials. Cost does, however, tend to fix the ceiling of value since, if new houses could be produced for the same prices older houses were bringing, most people would prefer the new homes. On the other hand, if builders cannot make a reasonable profit on speculative building, they will stop building until a shortage develops and forces prices up. The relationship of costs to selling prices therefore determines whether new buildings will be constructed.

The principle of substitution has a close relationship to the cost approach. A property is not worth more than another property which could be used in place of the property under appraisal. In the appraisal of some types of rental property, especially office space, this idea has a place. It is not as applicable to homes since no two homes are exactly the same. Although two properties are similar, the amenities surrounding the two are often different and the principle of substitution is not practicable.

The cost of reproduction is usually computed by the square-foot, cube-foot, unit-in-place, or quantity-survey method. Each method has its advantages and disadvantages; but it is not within the scope of this discussion to go into the details of each. The two most commonly used are the square-foot and the cube-foot method.

In recent years a great deal of thought has been given to how an appraiser should arrive at the amount of depreciation to be deducted when using the cost approach to value. The amount to be deducted is known as accrued depreciation. It is the sum of all three forms of depreciation if they are present. The dollar amount of accrued depreciation is the difference between the cost to reproduce the building at today's costs and prices and the market value of the property at the time of the appraisal. It is evident that one has to find the market value in order to arrive at the amount of accrued depreciation. Therefore, some method must be found to compute depreciation another way.

The most commonly used procedure is to make an estimate of the remaining economic life of the building, sometimes called "the remaining amount good." By taking the remaining life in years over the average life for such improvements, it is possible to get a depreciated reproduction cost. This, of course, is not the final answer for the appraiser, but the starting point in finding an estimate by the cost approach. The depreciated amount must be adjusted to fit the circumstances surrounding the property under appraisal. When this has been done, the value of the land by comparison is added and the result is an estimate of value by the cost approach.

The second approach to value is the income approach. The idea behind this approach is that a thing is worth what it will produce during its economic life. There is a close relationship between rents being paid and the price for which the property will sell. It is often stated as a general rule of thumb that a property is worth 100 times the monthly rent or that it should rent for 1 per cent of the cost of the property. To illustrate, assume a rental of $75 per month. According to the rule of thumb, the selling price would then be approximately $7,500 or 100 times the monthly rent. In ascertaining the monthly rent for a $9,000 property, take 1 per cent of the $9,000 or $90. The appraiser should remember that the "100 times" is only a rule of thumb and that he must investigate local conditions to find whether the selling prices are more or less than the 100.

Most appraisers feel that the income approach cannot be successfully used on homes. The reasoning behind this is that, when a home serves its purpose as a home, it does not produce income and was not built with the idea of profit. Therefore, to apply the income approach would, in effect, change the property from a home to an income property, and the valuation as an income property would be different from its value under the present use. Conversely, it can be argued that a home may be rented at some price and that a rented property is furnishing the amenities of living to a family other than the owner. It can also be said that the rent this family will pay is proportionate to the volume of amenities that the property produces, and that they are evaluating the amenities the same as a potential buyer does. Be that as it may, if there are rentals in the neighborhood, it would be possible to find the ratio of monthly rentals to selling prices. If one finds that houses in a certain neighborhood are selling for 110-115 times the monthly rental, it is safe to assume that the property under appraisal would also sell for about that number of times the monthly rental that could be obtained from it. Although the approach is based on an estimate of the monthly rent, there is no reason to believe that an appraiser could be as accurate in this as in estimating the remaining life of a building in the cost approach. This income approach can certainly be used as a check on the other two approaches.

The third approach to value is the market approach. This is an attempt to arrive at a valuation by finding the selling price of similar properties. Some appraisers make the mistake of deciding what they think the subject property is worth and then trying to find other properties which have sold for approximately the same amount. This is not appraising, since the properties used for bench marks may not be comparable. In order for a property to be used as a comparable, it must be truly similar to the subject property. It should be of about the same age; the architecture, floor plan, and materials used should be similar; the surroundings of the two properties should be approximately the same; the two should have the ability of creating about the same volume of amenities. Only when these, and perhaps more, requirements are met should a property be used as a comparable. If no true comparables can be found, other properties must be used and adjustments made in order to bring them in line with the property under appraisal.

One should carefully check the conditions surrounding the sale of a property that is to be used as a comparable. In checking the sales it is useful to pick up listing prices as well. Listing prices are the ceilings of value; bids which have been made for properties are the floor. This is the value range at any one time. The majority of all selling prices will certainly fall within this range. Market value is

also usually to be found within this range.

Because the market reflects not only the attitudes of buyers, but also the price sellers are willing to take, it is the best barometer of what the typical buyer is willing to pay at any particular time. If all of the requirements outlined earlier have been met, then selling price will indicate market value.

These three approaches are the tools of the appraiser. They are his guide posts in his attempt to determine the market value of a specific property. In correlating the amounts found by the three approaches, the appraiser must decide which approach most nearly fits the circumstances surrounding the subject property. He should not take an average of the results obtained by the three approaches; they should serve only as guides as he uses his judgment and his knowledge of the real-estate market. Judgment is the one thing that separates the appraiser from the "guesserator." The appraiser must weigh the facts and come up with an estimate of value which he can justify in his own mind. He has done a good job if he can answer "Yes" to the question, "Would I be willing to pay that price for the property?"

Methods for Economic Study Of Communities Reviewed

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by community leaders when they start to plan for an evaluation of their community's assets and liabilities. A development effort, whether undertaken at the community, state, regional, or national level requires research, planning, and promotion. Frequently, underemphasis or undue attention to one or another of these elements results in an unbalanced effort. The promotional function is overemphasized in many programs. The real purpose of research is often misinterpreted.

All communities should have the facts on their growth history and that of their state and region. This is particularly important during the present dynamic period in America's economy. Billions of dollars have been spent and are being spent on plant and equipment. The West is experiencing a rapid acceleration of its growth rate. As a result, states and communities strive to attract some of this industrial growth to their areas. It is important that the leaders in these areas take a realistic factual approach in their industrial development program rather than build a program on wishful thinking. Many industrial firms conduct their own plant-location studies or hire outside agencies to find their plant-location sites. Sizeable sums are budgeted for plant-location studies by growing industries. Unfortunately, many communities misdirect their development efforts through careless evaluation of the role they can best play in assisting these industries.

In studying your various human and material resources, it is necessary in many cases to go beyond the boundaries of your community. Frequently a community is selected by a firm for plant-site analysis only after a study of the general region and state has been made. Just what a community should include in an analysis of its region or state is difficult to spell out in detail. It will depend upon the nature of the study and the amount of information available from regional and state sources.

A firm seeking plant-location information will probably want to know something about labor, raw materials, energy, transportation, markets, present industrial development, water, waste disposal, climate, attitudes, and general economic environment at the regional, state, and community level. While there may be a requirement for a detailed analysis at the community level, only general information may be required at the regional and state levels.

What the community wants to achieve or find out will determine the type of study undertaken. If a chamber of commerce has as its major interest the promotion of additional business enterprises in the area, it may undertake a community industrial survey or a study of industrial potential or perhaps an intensive study of one aspect of the community's economy. If the community is growing so fast that its ability to provide community services is threatened, it may want a study of the present level of economic activity and a projection of growth trends. This economic analysis and forecast may be a basis for a planning study on the best use of land, budgeting for additional community facilities and services, the resolution of community traffic and blight problems, etc. It is extremely important that a community be able to accommodate new industrial entrants into its economy. To be prepared, it is necessary to plan ahead.

A community may be far enough advanced in its research and planning program that it can profitably undertake specific projects. Examples of specific problems that might be explored include an analysis of the availability of industrial land, the causes and level of air and water pollution in the area, and the best use to which certain of the community's natural resources might be put.

The various types of studies may be classified as follows:

Data Gathering and Techno-Economic Audits. Basic information on the community is often gathered through an economic survey. This survey is directly related, in most cases, to the promotional objective of the community. Community leaders intend to use information contained in the survey to inform potential investors of the community's characteristics. If this type of study does not go beyond the "data collection" stage, it is not a complete research effort. To obtain maximum value from the collected information, it is necessary to analyze and evaluate it as a basis for community action. An excellent reference source on this type of survey is *The Community Industrial Development Survey: The Fist Step in a Community Industrial Expansion Program*, published by the Department of Manufacture of the Chamber of Commerce of the United States.

Area Analysis. In contrast to the community survey which in most cases consists of a compilation of data on a community's economy, an area analysis usually represents a complete research effort. This type of study is frequently undertaken by a community in order to determine its industrial potential and the direction of its growth.

Analyses of Specific Economic Opportunities. A community may employ an intensive approach to a specific opportunity for several reasons. It may be the logical "next step" suggested by an earlier over-all analysis of industrial opportunities. Perhaps a specific request has been made by a potential investor for facts on a specific plant-location

factor. In recent years, the Stanford Research Institute has undertaken research for private firms and communities on specific problems such as the following: (1) analysis of plant location factors in the paint industry for a Pacific Northwest firm; (2) optimum location of a new newsprint mill in western North America (this study involved a thorough analysis of alternative Pacific Northwest sites); (3) analysis of the market potential for frozen potato products assumed to be manufactured at a plant located in southern Oregon; (4) analysis of the hospital needs of a southern Oregon county; (5) analysis of industrial land in the Portland, Oregon area.

Long-Range Planning. Many communities have not been able to keep up with their postwar industrial growth. Others have recognized the need for projecting growth trends so that they can lead rather than follow new developments. City and county government agencies, telephone companies, and power companies frequently employ forecasting techniques in analyzing the growth of their service areas as a basis for facility and service planning, capital requirements, etc. The results of many of these studies are available to the public, and would form an important source of information to any research team undertaking a study on a particular community.

Industrial development is a man-size job. Its complexity is evident in the following statement by a well-known consultant in the field: "Development is an activity of many facets, which in concept and action requires the economist, the engineer, the scientist, the statistician, the banker, the entrepreneur, the manager, the city planner, and the public-relations man. It involves soil, climate, minerals, water, forests, industrial and consumer markets, transportation facilities, electric energy, manpower, vocational training, community facilities and services, freight rates, terminal facilities, industrial sites, industrial districts, schools, hospitals, housing, recreational facilities. For an area as large as a state or region, or the territiry served by an electric utility or railroad, it involves all of these and others. For the individual city, it involves most of them directly and, in a broadly practical sense, the rest of them indirectly."[1]

If you have technical research talent within your community and this talent has the time and the tenacity to tackle the job on a public service basis, then by all means, utilize it. It will be the most economical method and will leave you with a hard core of "know how" within the community. In assembling your research team, however, you should keep in mind the fact that area development research, in most cases, calls for the development of action programs at the earliest possible date in the shortest possible time under definite budget limitations. The pressure for immediate action is often present and this calls for a full-time research effort.

If a community decides to seek outside assistance, it has a variety of sources to draw on. A logical first step in determining what source to use is to consult with other communities to determine who they retained to do their study, the results achieved, etc. Another good source of counsel and advice is your state development agency. The director of your state's planning board follows closely area development activities throughout the West and the nation. And there is a flood of activities to keep abreast of. Development is a prime objective of state governments today. Forty-six states have created development boards. An enthousiasm for industrial development is felt in every region of the country. An excellent source of information is the magazine, *Industrial Development.*

Other sources of research help are the bureaus of business research at your state colleges and universities. Faculty members of business schools and economics departments throughout the country frequently combine their educational activities with research on theoretical and applied area development problems. Frequently, they form teams of graduate students to conduct research programs. However, the number of persons available at a given time is an uncertainty because of teaching requirements.

Banks, various government agencies, and trade associations in your state may or may not be in a position to assist directly in research on your community, but they are excellent sources of statistical information. The same is true of service-type industries such as telephone companies, power and gas companies, and transportation companies.

Management consultants and applied research institutes are being called upon increasingly to assist areas in attacking their community development problems. Research assistance ranges from a single individual whose function is to work cooperatively with a team assembled from within the community to the assignment of a large team of technical personnel to the task of evaluating the human and physical resources of a given area.

What does the "outsider" bring to a research effort? One important item is objectivity. He is not biased toward any aspect of a community. By eliminating bias as far as possible and by adopting a method of problem solution which seeks to achieve exact measurement of the various factors influencing a community's activities, he may minimize the danger of arriving at "conclusions" by hunch, guesswork, opinion, and isolated examples. When you buy outside assistance, you are buying a point of view, a method of procedure, and a set of techniques which has been used successfully on similar problems.

The essential ingredients of any research effort are hard work, common sense, and good judgment. When an individual or a team tackles an area development research job, it is faced with the task of collecting a mass of pertinent information on a multitude of activities. The researcher must know where to get the right information, how to get it, and, more important, how to use it to arrive at meaningful conclusions.

There are certain basic steps involved in approaching an applied research problem. We can illustrate some of these basic steps by describing a hypothetical problem of economic development and land utilization for a rapidly growing community.

Our community has grown rapidly and unplanned in recent years, with the result that it faces the immediate need for facts regarding its economic growth potential in order to prepare for more orderly development. The leaders of the community realize that, unless plans are made now for the kind of city in which they would like to live and work, desirable growth opportunities will not only be lost, but there will be a loss in property values due to the mixing of land uses, increased taxes, blight, and slums. In short, these leaders of the community need to know the

[1] W. R. Davlin, "Needed Tools for Industrial Development Job Surveyed," *Oregon Business Review*, Feb. 1955, p. 1.

probable character, magnitude, and timing of the city's economic development prospects and to have a plan for accommodating the indicated growth physically into a desirable pattern of land utilization.

Recognizing the need for obtaining factual data, the community's leaders make arrangements for a research team to accumulate, analyze, and present factual information upon which they can build a program for the economic development of their city and make optimum use of its land resources.

The first action to be taken is a meeting between community leaders who are seeking the information and the research personnel who will obtain it. At this meeting (or series of meetings) complete understanding is reached between the two parties as to the purpose of the research and its scope. In this case, it is decided that analysis will be made of the city's present state of trade and industrial development, its location with respect to other activities and resources, its climate, its land and water resources, its tourist attractions, the availability and cost of power and fuels, and its network of rail, highway, and air transportation services. Analysis of these items will help to determine the city's principal attributes and deficiencies, and to identify the city's fields of economic opportunity. Business and industrial activities for which the city is found to have market locational advantages are to be analyzed and presented in sufficient detail to permit immediate formulation of action programs.

Having determined exactly what type of information is needed by the ctiy, the research team commences its studies. Initial field work is conducted in the client city to collect available data from public and private sources (on-site verifications are conducted as needed). Data are collected from nonlocal sources, such as state and national agencies, business and trade associations, and other appropriate organizations. Additional field work is conducted within the city as the needs arise for it.

The next steps facing the research team are the analysis and interpretation of the data which has been obtained by the field investigation. The assorted facts must be brought into meaningful relationship with each other and to the research objectives. As a first step, the economic base of the community is analyzed. Projections of industrial development are then prepared, as well as trade and service activities, population growth, and the land requirements of each. From this is developed the master plan of land utilization. In this instance four plans are prepared for the city: an over-all land-use plan, a transportation plan, a public building plan, and a parks and recreation plan. These plans provide the basic master plan of the city because they control the development of the city in an orderly and interrelated manner. Included are such items as alternate methods of financing the suggested plans, an outline of a program of land acquisition, etc.

Upon the completion of its study, the research team then presents its findings to the city leaders for their consideration and action.

When a community undertakes research on its assets and liabilities, it finally arrives at the "final written report" stage. What comes next? Is the job finished? Absolutely not. The research effort is but one of the elements of the development process. The written report is nothing but a "blueprint" for community action. Once you have your "blueprint," your "construction" job has just begun.

The task of implementing the results of research requires organization, planning, hard work, and imagination.

If there is one single thing that will most likely increase a community's effectiveness in undertaking an industrial development program, it is a realistic approach by the community to its development problems. Once a community has decided what it wants to do, it must then appraise those assets that may help it achieve its goals or those liabilities that may hinder it. When its evaluation is completed, it must then plan to use its resources in the most effective manner to reach its development goals. These goals may have to be modified or realigned as a result of the evaluation.

No amount of research, planning, promotion or wishful thinking is going to change those plant-location factors of a community or area that are fixed—climatic conditions, geographic factors, raw material availability, etc. A community must accept these factors as given and plan its development program accordingly. Every community has relative advantages and disadvantages in terms of achieving a certain objective. A community should maximize its advantages, accept and adjust to its fixed factors, and strive to modify its "man-made" disadvantages. Such things as community attitudes, land use, and adequacy of services are the product of men and can be changed by human action.

A community, in studying its assets and liabilities as a basis for community planning and promotional action to achieve realistic development goals, is substituting facts for wishful thinking. It should carefully evaluate the odds it faces in seeking new industry. The risk inherent in research on its "balance sheet" position should be recognized. The community should have reasonable expectations regarding the possible results of research. By careful planning of their development program, community leaders will maximize returns to the whole community at minimum cost.

CURRENT BUSINESS TRENDS IN OREGON

Index of Man Hours in Manufacturing. One of the best indicators showing changes in manufacturing activity is the man hours of industrial production workers. These figures apply only to personnel engaged in direct manufacturing activities; sales, office, and general administrative employees are excluded. The index is derived by the Bureau of Business Research from data supplied by the Oregon Unemployment Compensation Commission. The most recent reading covers the month of June 1956. (No adjustment for seasonal variation has been made. 1951 = 100.)

	1955	*1956*		*1955*	*1956*
Jan.	84.9	84.1	July	102.8	.....
Feb.	85.0	84.2	Aug.	111.0	.....
Mar.	84.4	84.1	Sept.	104.1	.....
Apr.	85.3	93.4	Oct.	99.6	.....
May	92.7	96.6	Nov.	91.3	.....
June	102.1	107.1	Dec.	88.0	.....

Multnomah County Real-Estate Transactions. During July 1956 there were 1,113 real-estate sales amounting to $11,835,804 in Multnomah County. Of these, 801 involved residences, the sales price of which was $7,953,168; 248 were vacant properties, $1,049,519; and 64 were business properties, $2,828,117. Additional figures are:

	July 1956	*June 1956*	*July 1955*
Number of sales	1,113	1,032	1,007
Value of sales	$11,835,804	$11,291,147	$11,877,789
Number of mortgages	989	1,055	1,109
Amount loaned	$10,118,193	$10,001,450	$10,131,889
Number of sheriff's deeds	4	4	5
Amount of sheriff's deeds	$15,423	$21,060	$27,068
Average residential selling price	$9,935	$10,510	$10,105

CURRENT BUSINESS TRENDS IN OREGON

Lumber. July 1956 production of lumber in the Douglas-fir area of the Pacific Northwest showed a considerable decline, though the drop in orders was not so great. The lower production was reflected in the end-of-month inventory. The figures below were supplied by the West Coast Lumbermen's Association and are in thousands of feet board measure.

	July 1956	*June 1956*	*July 1955*
Average weekly production	148,759	182,683	157,768
Average weekly orders	161,890	165,830	182,500
Unfilled orders, end of month	629,831	623,696	822,965
Lumber inventory, end of month	902,248	953,889	766,328

Business Failures. Dun and Bradstreet's series showing commercial failures is frequently considered an indicator of business health. Figures for Oregon are given below:

	1955		*1956*	
	Number	*Liabilities*	*Number*	*Liabilities*
Jan.	8	$ 160,000	13	$ 421,000
Feb.	2	76,000	7	1,234,000
Mar.	8	157,000	13	1,257,000
Apr.	13	259,000	13	604,000
May	14	368,000	21	365,000
June	11	310,000	30	593,000
July	6	236,000	17	534,000
Aug.	9	257,000	---	-----
Sept.	7	1,009,999	---	-----
Oct.	13	319,000	---	-----
Nov.	14	559,000	---	-----
Dec.	15	436,000	---	-----

Department-Store Sales. The only retail sales indicator for Oregon is the sales of department stores in Portland, a series which is computed by the Federal Reserve Bank of San Francisco. The percentage of dollar sales volume for th period ending August 11, 1956, as compared with the same period a year ago, for Portland and other Pacific Coast cities is shown below:

	Week Ending Aug. 11	*Four Weeks Ending Aug. 11*	*Calendar Year to Aug. 11*
Portland	+2	−2	0
Los Angeles	−1	−2	−1
San Francisco Bay	+9	+7	+3
Seattle	+6	+2	+4
United States	+7	+4	+4

Employment. The number of nonagricultural workers employed in Oregon declined about 0.2 per cent (800) between mid-June and mid-July 1956. The decrease appeared almost entirely in the areas of foods and kindred products (2,000) and government workers (2,100). Nearly all other categories showed slight increases, with the most substantial (1,300) in contract construction. Employment in mid-July 1956, was 2.2 per cent (10,900) higher than in mid-July 1955. More detailed figures from the Oregon Unemployment Compensation Commission follows:

	July 1956	*June 1956*	*July 1955*
Lumber & wood products	86,900	86,600	89,800
Food & kindred products	22,500	24,500	22,100
Other manufacturing	48,900	48,400	43,800
Total manufacturing	158,300	159,500	156,000
Contract construction	27,900	26,600	27,500
Retail trade	81,800	81,600	81,000
Government	72,100	74,200	70,100
Other nonmanufacturing	157,900	156,900	152,500
Total nonmanufacturing	339,700	339,300	331,100
Total nonagricultural employment	498,000	498,800	487,100

BANK DEBITS

Bank debits represent the dollar value of checks drawn against the deposit accounts of individuals and business firms. Bank debits are regarded as good indicators of current business activity, although their value for this purpose may be impaired by the inclusion of large checks arising out of transfers of funds for the purchase of certain types of capital assets that do not constitute "business activity." The Bureau of Business Research collects bank debits from 152 banks and branches monthly.

Marketing Districts	*Number of Banks Reporting*	*Debits July 1956*	*Debits June 1956*	*Debits July 1955*	*July 1956 Compared with June 1955*	*July 1956 Compared with July 1955*
Oregon	146	$1,618,592,157	$1,467,288,402	$1,496,640,647	+10.3	+ 8.1
Portland (Portland, Hillsboro, Oregon City, etc.)	40	1,018,331,663	857,061,860	908,655,682	+18.8	+12.0
Lower Willamette Valley (Salem, McMinnville, etc.)	22	125,672,158	133,851,499	127,589,565	− 6.2	− 1.6
Upper Willamette Valley (Albany, Corvallis, Eugene, etc.)	21	156,792,840	161,612,630	156,290,934	− 4.8	+ 0.3
North Oregon Coast (Astoria, Tillamook, etc.)	7	26,088,107	27,698,701	26,850,716	− 6.9	+ 0.07
Douglas, Coos, Curry counties	12	62,788,170	63,489,177	61,475,871	− 1.2	+ 2.1
Southern Oregon (Ashland, Medford, Grants Pass)	7	77,073,915	66,261,591	70,071,440	+16.3	+ 9.9
Upper Columbia River (The Dalles, Hood River, etc.)	9	26,589,598	27,520,026	33,275,174	− 3.4	−20.1
Pendleton area	7	31,026,629	27,016,997	26,501,266	+14.8	+17.0
Central Oregon (Bend, Prineville, Redmond, etc.)	5	25,285,755	27,145,518	20,888,089	− 6.9	+21.0
Klamath Falls, Lakeview area	5	32,368,942	34,282,753	30,610,127	− 5.6	+ 5.7
Baker, La Grande area	6	19,754,111	20,344,339	18,907,603	− 3.0	+ 4.4
Burns, Ontario, Nyssa	5	16,820,269	18,003,311	16,306,150	− 6.6	+ 3.1

BUILDING PERMITS

Building permits give an indication of building operations planned rather than actual construction under way. Care must be taken in interpreting these data to allow for the lag which may elapse between the issuance of the permit and the beginning of actual construction. The data have been collected by the Bureau of Business Research.

	New Residential July 1956	*New Nonresidential July 1956*	*Additions, Alterations & Repairs July 1956*	*Totals July 1956*	*Totals June 1956*	*Totals July 1955*
Albany	$ 61,000	$ 7,600	$ 11,100	$ 79,700	$ 148,200	$ 262,300
Baker	.....	1,000	.....	1,000	59,810	91,690
Bend	136,300	4,925	19,225	160,450	81,880	141,940
Coos Bay	43,500	1,175	9,750	54,425	78,875	102,465
Corvallis	147,500	230,500	31,530	409,530	1,320,020	192,955
Eugene	219,840	588,525	117,582	925,947	428,527	277,380
Grants Pass	68,150	27,000	82,915	178,065	212,575	159,875
Hillsboro	85,600	33,150	21,845	140,595	89,995	75,470
Klamath Falls	89,700	32,125	35,302	157,127	386,270	170,100
McMinnville	50,500	141,200	24,900	216,600	93,265	90,500
Medford	189,150	55,180	111,352	355,982	580,415	173,983
North Bend	32,410	5,800	9,191	47,401	49,569	91,175
Pendleton	187,500	2,500	75,300	265,300	76,355	76,700
Portland	1,029,750	941,530	1,270,085	3,241,365	4,167,415	3,411,095
Roseburg	56,100	42,935	.....	99,035	91,338	170,038
Salem	14,000	93,750	96,000	203,750	563,178	880,205
Springfield	18,500	.....	72,085	90,585	98,953	207,875
The Dalles	78,148	1,700	5,800	85,648	91,102	214,439
Lane County	516,250	117,844	69,100	703,194	1,122,160	870,197
Multnomah County	2,477,130	805,375	142,825	3,425,330	2,678,968	6,861,895
Wasco County	5,600	3,003,000	8,120	3,016,720	10,581	17,250
40 other communities	451,424	1,312,179	208,631	2,005,234	4,161,985	1,113,519
Totals	$5,961,352	$7,478,993	$2,422,638	$15,862,983	$16,927,519	$15,682,316